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RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHYD/AMEMBASSY YAOUNDE 1298
RUEHBP/AMEMBASSY BAMAKO 0713
RUEHDK/AMEMBASSY DAKAR 1151
RUEHKH/AMEMBASSY KHARTOUM 0289
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RUEHNM/AMEMBASSY NIAMEY 2767
RUEHFR/AMEMBASSY PARIS 1910
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SUBJECT: CHAD: WORLD BANK OFFICIAL CAUTIOUSLY OPTIMISTIC

1. (SBU) SUMMARY: Chadian authorities have taken concrete steps to demonstrate their commitment to the July 13 agreement between the GOC and the World Bank, according to the Bank's Senior Advisor on the Chad oil project. However, the Bank will still need to come to an agreement with the GOC on the management of the country's indirect oil revenues. Bank officials, including President Wolfowitz, are keenly aware of the negative implications that a failed political dialogue or continued instability in Eastern Chad could have on the agreement and the GOC's commitment to transparent oil revenue management. END SUMMARY.

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GOC TAKING POSITIVE STEPS
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2. (SBU) On July 28, Ambassador Wall met with World Bank Senior Program Manager for the Chad-Cameroon Pipeline Marie-Francoise Marie Nelly to discuss recent developments in Chad following the July 13 agreement between the GOC and Bank and the subsequent visit by World Bank President Paul Wolfowitz. Marie-Nelly told the Ambassador that the approval of the 2006 budget prior to Wolfowitz's visit was a necessary and positive step in establishing budgetary reform. She noted that the GOC had begun to lay the foundation for the implementation the World Bank-proposed and GOC approved Budget Modernization Plan (PAMFIP), which entailed the closure of the multitude of GOC commercial bank accounts and the establishment a single bank account in the Central Bank. This development would streamline the cash disbursement process and streamline the GOC's expenditure capabilities.

3. (SBU) Marie-Nelly added that the GOC was already in the process of establishing an inter-governmental committee for the creation of a national poverty reduction strategy paper (PRSP), and had agreed to hold a workshop for GOC authorities and civil society representatives to develop the initiative. She noted that the GOC was also taking steps to

develop a medium-term expenditure framework (MEF) for GOC spending of its oil revenues in 2006 and 2007. To this end, the Government will also host a national budget conference in August to begin formulation of the 2007 budget. All these initiatives were, according to Marie-Nelly, indications that the GOC was taking measures to execute the agreement. She added that the GOC was set to receive USD 130 million from the Citibank escrow account (which was now completely unfrozen), which would assist in servicing a number of arrears that the GOC maintained, including unpaid salaries and payments to its cotton and electricity parastatals. This would add to the USD 10 million budgetary support package from the African Development Bank and the USD 100 million in indirect tax revenues set to come in the fall of 2006.

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UNRESOLVED MATTERS ON THE INDIRECT REVENUE SIDE
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¶4. (SBU) Marie-Nelly stated that while there were clear signs of progress, the management of the indirect oil revenues still required significant discussion. According to her, the Bank would like to see Chadian authorities implement three measures to manage indirect tax revenues: establish a transparent spending system, develop a stabilization fund to ensure proper investment of additional revenues, and develop a concrete and efficient plan to program any new spending needs. Marie-Nelly pointed out that Bank and GOC authorities would still have to determine if the transit account used for direct revenues would also apply to indirect revenues.

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A VERY FRAGILE AGREEMENT
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¶5. (SBU) Marie-Nelly stated that military spending for the 2006 budget amounted to FCFA 34 billion (approximately USD 60 million, or ten percent of the national budget), most of which was already spent. She pointed out that GOC officials intended to spend more if another attack takes place. According to the World Bank official, while the Bank was aware of the country's security needs, it would have to seriously consider any military spending on the part of the Government that exceeded reasonable spending activities. She stated that the Bank was fully aware that increased insecurity, the failure of a political dialogue, and civil unrest against the regime would all affect the GOC's commitment to the revenue management process. Marie-Nelly definitely stated that if the GOC failed to adhere to any commitments laid out in the July 13 agreement, President Wolfowitz and the Bank were fully prepared to end its support for the revenue management process.

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COMMENT
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¶6. (SBU) The frank comments from a senior Bank official show that the implementation of the July 13 agreement is far from a done deal. Management of the indirect revenues still requires a resolution. And should the political and security environment become unstable, the revenue management process, and relations with the Bank and GOC will once again be in jeopardy.

WALL